

WATER Valuation Considerations

Research Analyst Commentary

Date	Firm	Stock Price	Target Stock Price	Rating	EPS		Price / Earnings		Projected 5-Year EPS Growth Rate
					2001E	2002P	2001E	2002P	
11/14/01	First Call	\$114.59	—	—	\$6.23	\$7.17	18.4x	16.0x	15.0%
10/30/01	Banc of America Securities	111.74	\$125.00	Buy	6.23	7.16	17.9	15.6	15.0
10/26/01	Merrill Lynch	102.75	135.00	Buy	6.24	7.65	16.5	13.5	15.0
10/26/01	SG Cowen	110.00	150.00	Strong Buy	6.22	7.15	17.7	15.4	—
10/25/01	ABN Amro	108.35	140.00	Buy	6.25	7.19	16.4	14.3	15.0
10/25/01	Bear Stearns	102.75	120.00	Buy	6.23	7.15	16.5	14.4	15.0
10/25/01	CIBC World Markets	109.36	140.00	Strong Buy	6.15	7.10	17.6	15.3	—
10/25/01	Lehman Brothers	102.75	120.00	Strong Buy	6.22	7.15	16.5	14.4	16.0
10/25/01	Prudential	109.50	135.00	Buy	6.23	7.30	17.6	15.0	15.0
10/23/01	Morgan Stanley	107.12	120.00	Strong Buy	6.15	7.10	17.4	15.1	15.0
10/22/01	Salomon Smith Barney	104.65	118.00	Buy	6.11	7.12	17.1	14.7	15.0
10/19/01	UBS Warburg	101.50	127.50	Strong Buy	6.14	7.05	16.5	14.4	15.0
10/18/01	J.P. Morgan H&Q	100.50	125.00	Buy	6.15	7.08	16.3	14.2	15.5

Date	Firm / Analyst	Recent Research Commentary
10/30/01	Banc of America Securities Todd Richter	"We expect WATER's industry leading benefit design capabilities to allow it to successfully price ahead of trends. As a result. We believe that WATER is less likely than its peers to be negatively surprised on the cost side in 2002." "We are raising our price target to \$125. Our price assumes virtually no multiple expansion."
10/26/01	Merrill Lynch Roberta W. Goodman	"WATER continues to be a model of consistency, with third quarter earnings significantly outpacing our and First Call expectations and quality confirmed by continued strong operating cash flows. Fundamentals appear solid entering 2002 given WATER's ongoing market share gains and long-time pricing discipline."
10/25/01	CIBC World Markets John Szabo	"Management believes that large employers will increasingly looking to redesigning employee benefit plans to reduce overall costs. With a breadth of products unmatched by its competitors, we believe the company is well positioned in this market to gain share. WATER has the greatest degree of flexibility in plan design than any other company we follow, allowing it to react more quickly to market demands and win Large Group business" "The trend toward growth in individual plans supports our view that WATER is among the most well positioned companies in the industry for an economic downturn."
10/23/01	Banc of America Securities Todd Richter	"While the RightCHOICE price may look high on the surface, a quick analysis of the numbers does leave us comfortable that the transaction will be accretive by 2003. Also, for nearly a decade the company has proven to be one of the better consolidators in the industry. Though we believe they are paying a full price, we continue to have great confidence in WATER's management. Thus, we continue to believe WATER is one of the most attractive investments in the managed care space."

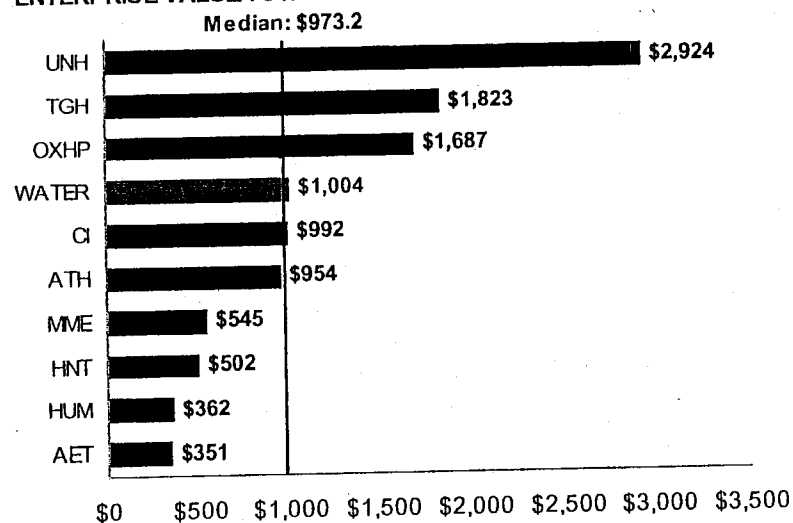
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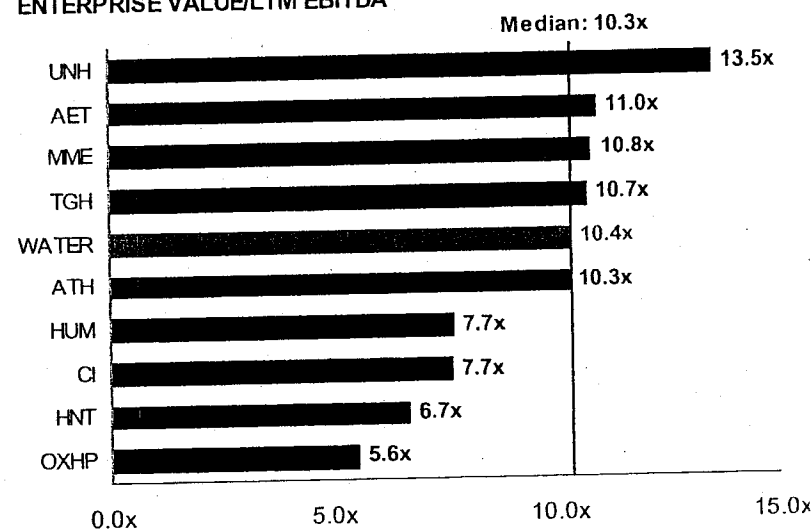
WATER Valuation Considerations

Selected Publicly Traded Companies Analysis (a)

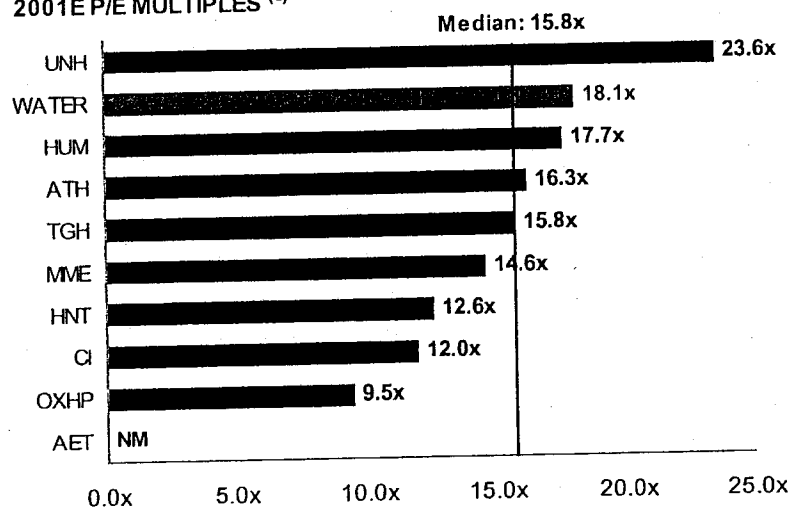
ENTERPRISE VALUE/TOTAL ADJUSTED MEMBERS (b)



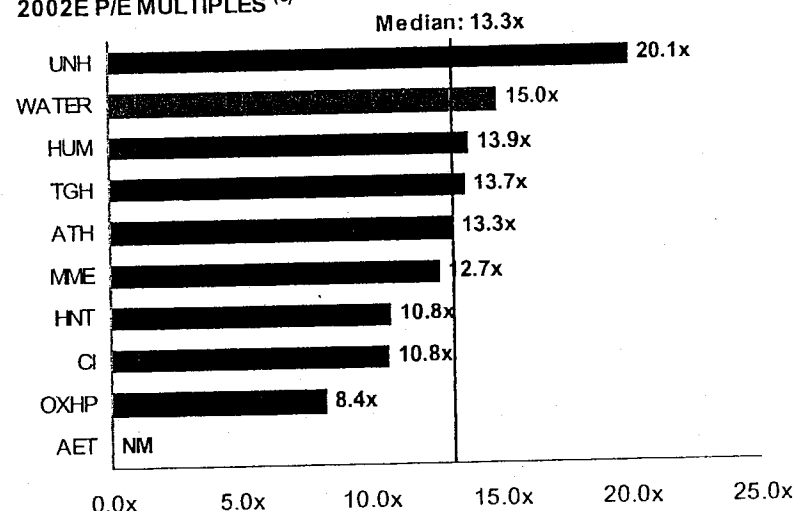
ENTERPRISE VALUE/LTM EBITDA



2001E P/E MULTIPLES (c)



2002E P/E MULTIPLES (c)



- (a) WATER LTM data, membership data and enterprise value are 2001E pro forma for acquisition of RightCHOICE.
 (b) Adjusted members equals total medical members adjusting Medicare members by a factor of 4.5 and ASO members by a factor of 0.2.
 (c) As per First Call consensus estimates and closing prices as of November 14, 2001.



Appendix A: Comparable Company Analysis

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Comparable Company Analysis

(\$ in millions, except per share data)

Company Name	Stock Price 11/14/01	52 Week		Diluted Shares Outstanding	Diluted Equity Value	Diluted Aggregate Value ^(a)	Price / Earnings				Projected Secular Growth	Cal. 2002 P/E to Growth
		High	Low				LTM	2001E	NTM	2002E		
Multi-Market												
Aetna Inc.	\$29.97	\$42.69	\$23.01	146.9	\$4,402.8	\$6,488.2	NM	NM	NM	NM	12.0%	NM
Anthem, Inc.	45.95	46.00	40.35	110.1	5,057.3	5,885.0	17.0x	16.3x	14.5x	13.3x	15.0%	88.8%
Cigna Corp.	83.93	136.75	69.86	149.8	12,569.0	14,107.0	12.1x	12.0x	11.3x	10.8x	15.0%	72.1%
Humana, Inc.	12.21	15.81	8.38	170.6	2,082.7	2,671.7	18.7	17.7	14.9	13.9	15.0%	92.5%
UnitedHealth Group, Inc.	65.04	70.00	50.50	338.0	21,986.7	23,426.7	24.9	23.6	20.9	20.1	16.0%	125.5%
						Mean	18.2x	17.4x	15.4x	14.5x	14.6%	94.7%
						Median	17.8	17.0	14.7	13.6	15.0%	90.6%
California-Based												
Health Net, Inc.	\$19.95	\$26.94	\$16.00	126.6	\$2,526.5	\$3,150.4	13.2x	12.6x	11.2x	10.8x	12.0%	90.4%
PacifiCare Health Systems, Inc.	16.92	40.50	10.25	34.0	574.8	1,369.3	9.1	10.1	10.0	8.7	14.0%	62.3%
WATER ^(b)	114.59	121.25	81.65	74.3	8,519.2	9,855.3	18.1	18.1	16.5	15.0	15.0%	100.2%
						Mean	13.5x	13.6x	12.6x	11.5x	13.7%	84.3%
						Median	13.2	12.6	11.2	10.8	14.0%	90.4%
Regional												
Coventry Health Care, Inc.	\$21.95	\$29.94	\$13.00	68.6	\$1,504.7	\$1,504.7	19.3x	18.0x	15.9x	15.1x	15.0%	100.9%
First Health	22.60	30.40	17.31	101.0	2,283.2	2,523.2	23.6	22.6	20.0	18.8	16.0%	117.7%
Mid Atlantic Medical Services, Inc.	19.47	23.18	14.69	50.2	978.2	981.6	15.1	14.6	13.1	12.7	15.0%	84.8%
Oxford Health Plans, Inc.	26.70	42.75	21.90	104.0	2,777.1	2,935.6	10.0	9.5	8.7	8.4	15.0%	56.0%
RightCHOICE Managed Care, Inc.	68.30	68.60	22.50	20.4	1,391.1	1,391.1	23.2	22.2	20.5	19.3	15.0%	128.6%
Sierra Health Services, Inc.	7.43	11.15	2.75	29.0	215.8	467.8	14.0	13.8	12.6	11.8	14.0%	84.2%
Trigon Healthcare, Inc.	64.34	81.50	46.90	37.6	2,418.0	2,729.9	16.6	15.8	14.2	13.7	15.0%	91.7%
Cobalt Corp.	6.20	9.05	3.31	40.7	252.3	266.5	NM	NM	NM	NM	12.0%	NM
American Medical Security Group, Inc.	9.60	9.75	4.00	14.6	140.6	181.0	20.4	14.8	10.1	10.2	12.0%	85.1%
						Mean	17.8x	16.4x	14.4x	13.8x	14.3%	93.6%
						Median	17.9	15.3	13.6	13.2	15.0%	88.4%
Total Managed Care Mean							17.0x	16.1x	14.3x	13.5x	14.3%	92.1%
Total Managed Care Median							17.0	15.8	14.2	13.3	15.0%	90.4%

- (a) Calculated as market value of equity plus total debt, minority interest and preferred stock.
 (b) LTM data, equity value and enterprise value are 2001E pro forma for acquisition of RightCHOICE.



Comparable Company Analysis

(\$ in millions, except per share data)

Company Name	Equity Value as a Multiple of Book Value	Aggregate Value as a Multiple of ⁽¹⁾				Agg. Value/Medical Member		Total Debt as a % of Tot. Cap.	Total Debt/ LTM EBITDA
		EBITDA		EBIT		Total Members ^(a)	Adjust. Members ^(b)		
		LTM	LQA	LTM	LQA				
Multi-Market									
Aetna Inc.	0.4x	11.0x	15.7x	NM	NM	\$370.4	\$351.1	17.2%	3.5x
Anthem, Inc.	1.3	10.3	NM	12.9	NM	954.0	954.0	17.4%	1.4
Cigna Corp.	2.4	7.7	8.1	8.8	9.3	992.5	992.5	22.4%	0.8
Humana, Inc.	1.4	7.7	7.1	14.1	12.6	415.6	361.6	28.7%	1.7
UnitedHealth Group, Inc.	5.9	13.5	12.6	15.9	14.8	2,730.4	2,924.0	27.9%	0.8
Mean	2.3x	10.0x	10.9x	12.9x	12.2x	\$1,092.6	\$1,116.6	22.7%	1.7x
Median	1.4	10.3	10.4	13.5	12.6	954.0	954.0	22.4%	1.4
California-Based									
Health Net, Inc.	2.3x	6.7x	6.5x	8.6x	8.2x	\$573.1	\$501.6	36.0%	1.3x
PacifiCare Health Systems, Inc.	0.3	3.9	3.8	6.6	6.5	379.1	194.2	27.7%	2.3
WATER ^(c)	4.2	10.4	10.1	11.9	11.3	759.1	1,004.1	39.8%	1.4
Mean	2.3x	7.0x	6.8x	9.0x	8.7x	\$570.4	\$566.6	34.5%	1.7x
Median	2.3	6.7	6.5	8.6	8.2	573.1	501.6	36.0%	1.4
Regional									
Coventry Health Care, Inc.	2.3x	10.0x	9.1x	12.0x	10.8x	\$812.6	\$846.1	0.0%	0.0x
First Health	7.5	11.6	10.9	14.6	13.7	NM	NM	44.1%	1.1
Mid Atlantic Medical Services, Inc.	4.0	10.8	9.5	12.5	10.9	542.4	544.5	1.4%	0.0
Oxford Health Plans, Inc.	5.5	5.6	4.7	5.8	4.9	1,946.8	1,687.0	23.8%	0.3
RightCHOICE Managed Care, Inc.	3.6	11.8	10.5	14.6	12.7	492.5	1,388.4	0.0%	1.2
Sierra Health Services, Inc.	2.3	6.3	6.5	10.8	11.7	360.2	369.1	72.5%	3.4
Trigon Healthcare, Inc.	2.5	10.7	9.8	11.5	10.7	1,290.9	1,823.5	23.6%	1.2
Cobalt Corp. ^(d)	1.1	NM	NM	NM	NM	371.5	431.0	6.0%	0.0
American Medical Security Group, Inc.	0.6	7.4	5.0	11.6	6.5	NM	NM	15.1%	1.1
Mean	3.3x	9.3x	8.2x	11.7x	10.2x	\$831.0	\$1,012.8	20.7%	0.9x
Median	2.5	10.3	9.3	11.8	10.8	542.4	846.1	15.1%	1.1
Mean	2.8x	9.1x	8.7x	11.5x	10.3x	\$866.1	\$958.2	23.7%	1.3x
Median	2.3	10.1	9.1	11.9	10.8	573.1	846.1	23.6%	1.2

(a) Includes all members without adjustment.

(b) Adjusted members equals total medical members adjusting Medicare members by a factor of 4.5 and ASO members by a factor of 0.2.

(c) LTM data, membership data, equity value and enterprise value are 2001E pro forma for acquisition of RightCHOICE.

(d) LTM data pro forma for merger with BCBS not available. LQA EBITDA used instead where necessary.

Banc of America Securities



Comparable Company Analysis

(\$ in million, except per share data)

Company Name	EBITDA				EBIT				MLR	LTM SG&A as a % of Rev.	Equity Val. Value/ Tang. Book Value
	LTM	% Margin	LQA	% Margin	LTM	% Margin	LQA	% Margin			
Multi-Market											
Aetna Inc.	\$592.4	2.3%	\$412.9	1.7%	\$4.3	0.0%	(\$152.0)	NM	90.1%	17.1%	3.9x
Anthem, Inc.	571.1	5.8%	NA	NA	455.0	4.6%	NA	NA	84.2%	20.0%	1.1
Cigna Corp.	1,831.6	9.5%	1,733.3	9.1%	1,607.0	8.3%	1,512.0	8.0%	85.4%	25.5%	1.5
Humana, Inc.	346.0	3.4%	376.0	3.6%	189.0	1.9%	212.0	2.0%	83.3%	14.2%	2.2
UnitedHealth Group, Inc.	1,732.0	7.6%	1,852.0	7.8%	1,475.0	6.5%	1,584.0	6.7%	83.9%	16.7%	5.6
Mean		5.7%		5.6%		4.3%		5.6%	85.4%	18.7%	2.9x
Median		5.8%		5.7%		4.6%		6.7%	84.2%	17.1%	2.2
California-Based											
Health Net, Inc.	\$468.6	4.8%	\$483.2	4.7%	\$366.3	3.7%	\$384.4	3.8%	85.2%	13.6%	3.9x
PacifiCare Health Systems, Inc.	352.0	2.9%	358.4	3.0%	208.4	1.7%	211.9	1.8%	89.2%	9.7%	3.7
WATER ^(a)	951.0	7.2%	979.6	7.5%	830.2	6.3%	871.2	6.7%	80.6%	0.0%	2.4
Mean		5.0%		5.1%		3.9%		4.1%	85.0%	7.8%	3.3x
Median		4.8%		4.7%		3.7%		3.8%	85.2%	9.7%	3.7
Regional											
Coventry Health Care, Inc.	\$151.2	4.9%	\$166.0	5.2%	\$125.1	4.0%	\$139.7	4.3%	85.9%	11.9%	1.7x
First Health	216.7	38.3%	232.3	37.7%	172.7	30.5%	184.0	29.9%	91.0%	15.9%	1.2
Mid Atlantic Medical Services, Inc.	90.6	5.3%	103.2	5.6%	78.7	4.6%	90.5	4.9%	85.2%	11.3%	1.0
Oxford Health Plans, Inc.	524.7	12.1%	621.4	14.0%	502.2	11.6%	599.1	13.5%	76.5%	10.5%	1.0
RightCHOICE Managed Care, Inc.	117.5	10.1%	132.2	10.9%	95.4	8.2%	109.8	9.0%	80.2%	16.3%	1.3
Sierra Health Services, Inc.	74.2	5.1%	72.2	4.8%	43.3	3.0%	39.8	2.6%	82.1%	7.6%	1.0
Trigon Healthcare, Inc.	254.8	8.7%	278.5	9.0%	237.2	8.1%	254.4	8.3%	81.3%	17.1%	1.0
Cobalt Corp.	NM	NM	(109.8)	NM	NM	NM	(117.2)	NM	92.3%	22.3%	1.8
American Medical Security Group, Inc.	24.5	2.7%	36.3	4.3%	15.6	1.7%	27.9	3.3%	71.3%	26.7%	1.9
Mean		10.9%		11.4%		9.0%		9.5%	82.9%	15.5%	1.3x
Median		7.0%		7.3%		6.3%		6.6%	82.1%	15.9%	1.2
Total Managed Care Mean		8.2%		8.6%		6.6%		7.5%		15.1%	2.1x
Total Managed Care Median		5.6%		5.6%		4.6%		5.8%		15.9%	1.7

(a) LTM data, equity value and enterprise value are 2001E pro forma for acquisition of RightCHOICE.

Banc of America Securities



Appendix B: Precedent Transaction Analysis

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